

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 PA-02 NSC-05 SS-15 STR-07
CEA-01 ABF-01 /132 W
-----023457 051912Z /50

P R 051818Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 7815
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
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UNCLAS SECTION 01 OF 04 LONDON 10573

USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E SYVRUD, OASIA
E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JUNE 29-JULY 5

SUMMARY: A 1.5 BILLION DOLLAR GOVERNMENT EURO-MARKET
BORROWING WAS RESTRUCTURED. OFFICIAL RESERVES SELL
SLIGHTLY IN JUNE. RETAIL SALES AND INSTALLMENT CREDIT
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ROSE IN MAY. FURTHER REVISIONS TO THE FINANCE BILL WERE
AGREED TO BY THE GOVERNMENT AS A MAJORITY IN FAVOR OF ITS
PROPOSAL TO INCREASE THE EMPLOYERS' NATIONAL INSURANCE
CONTRIBUTION WAS NOT FORTHCOMING. BUSINESS CONFIDENCE
EXPERIENCED A MILD REBOUND IN JUNE. STERLING IMPROVED
AGAINST A BUFFETED DOLLAR. END SUMMARY

1. HMTREASURY ANNOUNCED THAT THE BANK OF ENGLAND HAD COM-
PLETED ITS RENEGOTIATION OF THE \$1.5 BILLION EURO-CREDIT
ARRANGED WITH A SYNDICATE OF BANKS IN EARLY 1977. THE

REPAYMENT PERIOD HAS BEEN POSTPONED TO 1985/88 FROM 1981/

84. THIS WILL HELP EASE THE PRESSURE OF SERVICING THE U.K.'S FOREIGN CURRENCY DEBT OVER THE PEAK YEARS FROM 1979 TO 1982. THE RENEGOTIATED CREDIT WILL CARRY A SUBSTANTIALLY REDUCED SPREAD OF 5/8 PERCENT OVER INTERBANK RATES FROM THE 7/8 TO 1 PERCENT SPREAD ORIGINALLY ARRANGED. CHEMICAL BANK AND MORGAN GUARANTY DROPPED OUT OF THE SYNDICATE, AS THEY WERE UNABLE TO AGREE TO THE LOWER SPREAD, AND THEIR SHARES WERE TAKEN UP BY INCREASING THE SHARES OF THE BANK OF TOKYO AND THE CANADIAN IMPERIAL BANK OF COMMERCE.

2. U.K. OFFICIAL RESERVES FELL \$119 MILLION DURING JUNE TO STAND AT \$16,542 MILLION AT THE MONTH'S END. DURING THE MONTH HMG REPAYED \$13 MILLION OF LONG-TERM DEBT TO THE U.S. ACCRUALS OF FOREIGN CURRENCY BORROWING BY THE PUBLIC SECTOR AMOUNTED TO \$104 MILLION AND REPAYMENTS TO \$161 MILLION.

3. RETAIL SALES. THE MAY RISE IN RETAIL SALES VOLUME WAS MORE MODERATE THAN INDICATED BY PROVISIONAL FIGURES. FINAL DATA SHOW THAT RETAIL SALES VOLUME ROSE 1.6 PERCENT RATHER THAN 2.2 PERCENT. THE MOST RECENT QUARTERLY AND UNCLASSIFIED

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MONTHLY DATA FOLLOW:

(1971 EQUALS 100)

PERCENT CHANGE FROM 12 MONTHS

EARLIER

1977 - I	103.3	- 2.5
II	102.5	- 4.1
III	104.3	- 3.7
IV	104.4	- 1.4
1978 - I	106.3	2.9
FEB.	106.8	2.7
MAR.	107.0	5.2
APR.	106.7	4.3
MAY	2108.	5.0

THE MAY INCREASE WAS STRONGEST IN FOOD SALES (UP 2.5 PER-

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CEA-01 ABF-01 /132 W

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FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 7816
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
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CENT) AND "CLOTHING AND FOOTWEAR" (UP 4.6 PERCENT).
SALES OF CONSUMER DURABLES HAVING RISEN 12.8 PERCENT IN
APRIL EASED 4.5 PERCENT IN MAY. THE AVERAGE MONTHLY LEVEL
OF RETAIL SALES VOLUME FOR APRIL AND MAY IS 1.2 PERCENT
ABOVE THAT FOR THE FIRST QUARTER. DURING THE 6 MONTHS
THROUGH MAY, RETAIL SALES VOLUME ROSE AT AN ANNUAL RATE
OF 10.3 PERCENT. THIS STRENGTH APPEARS TO PRESAGE A FUR-
THER RISE IN OVERALL CONSUMER EXPENDITURE DURING THE SEC-
OND QUARTER.

4. INSTALLMENT CREDIT. TOTAL DEBT OUTSTANDING TO FIN-
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ANCE HOUSE AND RETAILERS CONTINUED TO GROW IN MAY. THIS
DEBT TOTALLED 3.69 BILLION POUNDS AT THE END OF THE MONTH,
A RISE OF 2.6 PERCENT FROM THE APRIL FIGURE OF 3.59 BIL-
LION. DURING THE MONTH FINANCE HOUSES EXTENDED 243 MIL-
LION POUNDS IN NEW CREDIT. THEIR NET INCREASE IN OUTSTAND-
ING DEBT WAS 74 MILLION POUNDS. THE CORRESPONDING FIG-
URES FOR RETAIL ESTABLISHMENTS WERE 228 MILLION AND 8
MILLION POUNDS, RESPECTIVELY. OVER THE MOST RECENT 3
MONTHS, TOTAL NEW CREDIT EXTENDED WAS 7.2 PERCENT HIGHER
THAN IN THE PREVIOUS 3-MONTH PERIOD. THIS IS CONSIDER-
ABLY GREATER THAN THE 2.9 PERCENT RISE IN NOMINAL RETAIL
SALES. THIS SHIFT IN FAVOR OF INSTALLMENT PURCHASES MAY
HAVE BEEN PARTIALLY DUE TO A LIBERALIZATION LAST SPRING
IN RULES GOVERNING CREDIT CARD USAGE, AS WELL AS POSSIBLE
CHANGES IN COMPOSITION OF SALES.

5. FINANCIAL TIMES BUSINESS SURVEY. THERE WAS A MILD
UPTURN IN BUSINESS CONFIDENCE IN JUNE. THE MONTHLY SUR-
VEY OF BUSINESS OPINION, PUBLISHED BY THE FINANCIAL TIMES,
SHOWS THAT THOSE RESPONDENTS EXPRESSING OPTIMISM ABOUT
THE GENERAL BUSINESS SITUATION OUTWEIGHED THOSE EXPRES-
SING PESSIMISM BY NEARLY 2 TO 1, COMPARED WITH A BARE
PLURALITY IN MAY. EXPORT PROSPECTS CONTINUE STRONG WHILE

THE TREND IN NEW ORDERS APPEARS TO HAVE STABILIZED FOLLOWING A 3-MONTH DECLINE. WEAK DEMAND CONTINUES TO BE THE MAIN CONSTRAINT ON PRODUCTION, BUT SKILLED STAFF SHORTAGES ARE SERIOUSLY AFFECTING CERTAIN SECTORS (ENGINEERING, CHEMICALS). OVERALL LABOR REQUIREMENTS APPEAR TO BE SUCH THAT EMPLOYMENT IS UNLIKELY TO SHOW MUCH CHANGE IN COMING MONTHS.

INVESTMENT INTENTIONS CONTINUE TO STRENGTHEN WITH FULLY 62 PERCENT OF RESPONDENTS INTENDING TO INCREASE THE VOLUME OF THEIR CAPITAL SPENDING IN THE COMING YEAR.
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TURNING TO WAGE COSTS, ABOUT TWO-THIRDS OF RESPONDENTS REPORT WAGE RISES OF 10-14 PERCENT WHILE 41 PERCENT REPORT UNIT COST INCREASES OF 5 TO 9 PERCENT. A FURTHER 43 PERCENT OF RESPONDENTS REPORT UNIT COST INCREASES OF 10-14 PERCENT. IMPROVED PROFIT MARGINS ARE ANTICIPATED BY 37 PERCENT OF RESPONDENTS COMPARED WITH 23 PERCENT IN APRIL.

6. MORE CHANGES TO THE BUDGET. THE GOVERNMENT, ON JUNE 28, IN THE FACE OF OPPOSITION BY THE LIBERAL PARTY, AGREED TO CUT ITS PROPOSED INCREASE IN EMPLOYER'S NATIONAL INSURANCE SURCHARGE FROM 2-1/2 PERCENT TO 1-1/2 PERCENT. THE GOVERNMENT ESTIMATES THAT THE 1-1/2 PERCENT INCREASE WILL RAISE 300 MILLION POUNDS IN THE REMAINDER OF THE CURRENT

FINANCIAL YEAR. THE ORIGINAL 2-1/2 PERCENT INCREASE WAS PROPOSED THREE WEEKS AGO AS A MEANS OF OFFSETTING INCOME TAX REDUCTIONS CONTAINED IN THE AMENDMENTS TO THE FINANCE BILL ESTIMATED TO COST 440 MILLION POUNDS DURING THIS FISCAL YEAR. NO ADDITIONAL MEASURES TO RECOUP THE BALANCE OF 140 MILLION POUNDS HAVE BEEN ANNOUNCED AT THIS TIME.

7. THE FOREIGN EXCHANGE MARKET HAS BEEN VERY ACTIVE, AT SOME TIMES HECTIC, THIS WEEK, ALTHOUGH STERLING HAS NOT BEEN AT THE CENTER OF THE STORM. AT THE END OF LAST WEEK RUMOR THAT FRANCE WOULD JOIN THE SNAIL APPEARED TO ENCOURAGE LARGE ORDERS FOR FRANCS, UNTIL THE FRENCH PRESIDENT'S DENIAL SEEMED TO CALM THE MARKET. THE DOLLAR WAS WEAK ON TWO GROUNDS ACCORDING TO MARKET SOURCES. THE YEN CONTINUED TO APPRECIATE AS WIDELY EXPECTED, AND THE DOLLAR WOULD HAVE GENERALLY BEEN WEAKER AS A RESULT. MOREOVER THERE WERE CONCERNS OVER THE U.S. INFLATION OUTLOOK, PROMPTED BY A SMALLER THAN EXPECTED INCREASE IN THE DISCOUNT RATE, AND BY WORRIES THAT CHAIRMAN MILLER OF THE FED HAD BEEN OVERRULED IN SETTING THE RATE. MARKET SOURCES STATE THAT THERE WAS VERY HEAVY, EXCITED TRADING IN THE DOLLAR ON MONDAY, AND (OUTSIDE OF THE U.S.
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WHERE MARKETS WERE CLOSED) ON TUESDAY, WITH SUBSTANTIAL CENTRAL BANK INTERVENTION AT LEAST ON MONDAY. WEDNESDAY MORNING SAW SOME IMPROVEMENT IN THE DOLLAR'S FORTUNES, BUT THIS WAS PARTIALLY OFFSET AFTER NEW YORK OPENED WITH NEW SELLING PRESSURE.

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STERLING GAINED AGAINST MOST CURRENCIES LAST THURSDAY ON RUMORS THAT THE POUND WOULD BE ASSOCIATED IN SOME WAY WITH THE EXPANDED SNAKE. ITS DOLLAR VALUE IMPROVED FURTHER IN THE JULY 4 MARKET ALTHOUGH IT SLIPPED IN TERMS OF OTHER CURRENCIES.

8. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	EXCHANGE (DEC. 1971)	GOLD (\$)
6/28	1.8545	61.4	185-3/4

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6/29	1.8665	61.6	184-3/8
6/30	1.8600	61.5	183-3/8
7/3	1.8685	61.5	183-7/8
7/4	1.8745	61.4	184-7/8

CHANGE 6/27-7/4 UP 0.0270 UP 0.1 UNCHANGED

9. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
6/28	- 0.47	- 1.32	- 2.65
6/29	- 0.47	- 1.35	- 2.72
6/20	- 0.47	- 1.33	- 2.78
7/3	- 0.45	- 1.33	- 2.63
7/4	- 0.43	- 1.20	- 2.55

CHANGE 6/27-7/4 DOWN 0.05 DOWN 0.20 DOWN 0.22
(ALL FIGURES IN CENTS)

10. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
6/28	7-5/8	8-5/8	9-1/16
6/29	7-3/32	8-1/2	9-1/8
6/30	8-3/16	8-11/16	9-3/16
7/3	8-1/4	8-5/8	9-3/16
7/4	8-3/16	8-7/8	9-1/8

CHANGE 6/27-7/4 UNCHANGED UP 1/16 DOWN 1/16

11. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL

DATE	
6/28	1-17/32
6/29	1-9/16
6/30	1-7/16
7/3	1-5/8
7/4	1-1/2

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CHANGE 6-27-7/4 UP 1/8

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CEA-01 ABF-01 /132 W

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P R 051818Z JUL 78

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 7818

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

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12. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
6/28	9-7/8	WOAQTXY	10-3/16
6/29	9-13/16	10	10-5/16
6/30	9-7/8	10-1/32	10-15/32
7/3	9-29/32	10-3/32	10-11/32
7/4	9-5/8	10-1/16	10-3/8

CHANGE 6/27-7/4 DOWN 7/64 UNCHANGED UP 3/32

13. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON GOVERN-
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MENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
6/28	11.90	12.88	13.10
6/29	11.81	12.83	13.04
6/30	11.78	12.75	13.04
7/3	11.78	12.75	13.03
7/4	11.91	12.79	13.08

CHANGE 7/27-7/4 UP 0.09 DOWN 0.05 UP 0.03

14. THE MINIMUM LENDING RATE REMAINED 10 PERCENT AS SET
BY THE BANK OF ENGLAND JUNE 8.

15. THE AVERAGE TREASURY BILL RATE AT FRIDAY'S AUCTION
ROSE 0.0180 PERCENT TO 9#2726 PERCENT. AS THE 300 MILLION
POUNDS IN BILLS TENDERED ATTRACTED BIDS OF 730.91 MILLION
POUNDS. THIS WEEK 300 MILLION POUNDS IN BILLS WILL BE OF-
FERED AS THE SAME AMOUNT MATURE.

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<< END OF DOCUMENT >>

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